



**TELEHOP COMMUNICATIONS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDING September 30, 2011 and 2010
(UNAUDITED)**

SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

Following are the consolidated interim statements of financial positions for Telehop Communications Inc. at September 30, 2011. Disclosed also are the consolidated interim statements of income (loss), statements of equity, statements of comprehensive income (loss) and cash flows for the nine-month period then ended. The above noted have not been reviewed by the Company's auditors, Schwartz Levitsky Feldman LLP.

These financial statements are the responsibility of management and have been reviewed and approved by the Company's Audit Committee and Board of Directors.

TELEHOP COMMUNICATIONS INC.

Interim Statement of Financial Position

| (in Canadian dollars) | (Unaudited) September 30, 2011 | (Unaudited) December 31, 2010 | (Unaudited) January 1, 2010 |
|---|--------------------------------------|-------------------------------------|-----------------------------------|
| ASSETS | | | |
| CURRENT | | | |
| Cash and cash equivalents | \$ 426,946 | \$ 473,712 | \$ 827,412 |
| Accounts receivable (Note 11 (a)) | 2,423,794 | 2,369,973 | 2,733,687 |
| Provision for doubtful accounts (Note 11 (b)) | (356,577) | (307,878) | (309,381) |
| Inventory | 4,600 | - | - |
| Income taxes recoverable | - | - | 150,682 |
| Prepaid expenses and deposits | 68,046 | 149,807 | 107,137 |
| | 2,566,809 | 2,685,614 | 3,509,537 |
| DEFERRED INCOME TAXES | 332,988 | 214,293 | 200,205 |
| PROPERTY AND EQUIPMENT (Note 9) | 229,800 | 308,339 | 512,027 |
| INTANGIBLE ASSETS (Note 10) | 37,256 | 72,347 | 118,746 |
| | \$ 3,166,853 | \$ 3,280,593 | \$ 4,340,515 |
| LIABILITIES | | | |
| CURRENT | | | |
| Accounts payable and accrued liabilities | \$ 1,738,759 | \$ 1,737,377 | \$ 2,558,935 |
| Provisions | 93,466 | 138,145 | 98,509 |
| Obligations under capital lease (Note 12) | 7,400 | 19,938 | 22,451 |
| | 1,839,625 | 1,895,460 | 2,679,895 |
| DEFERRED INCOME TAXES | - | - | 10,717 |
| OBLIGATIONS UNDER CAPITAL LEASE (Note 12) | 18,093 | 22,869 | 41,522 |
| | 1,857,718 | 1,918,329 | 2,732,134 |
| SHAREHOLDERS' EQUITY | | | |
| SHARE CAPITAL (Note 6) | 1,845,800 | 1,553,456 | 1,553,456 |
| CONTRIBUTED SURPLUS (Note 7) | 152,356 | 119,248 | 85,817 |
| ACCUMULATED COMPREHENSIVE INCOME (LOSS) | - | (5,481) | - |
| RETAINED EARNINGS (DEFICIT) | (689,021) | (304,959) | (30,892) |
| | 1,309,135 | 1,362,264 | 1,608,381 |
| | \$ 3,166,853 | \$ 3,280,593 | \$ 4,340,515 |

Subsequent event and Contingencies (Notes 13 and 14)

The accompanying notes are an integral part of these interim consolidated financial statements

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Income and Comprehensive Income

| (in Canadian dollars) | Three months ending Sept. 30th | | Nine months ending Sept. 30th | |
|--------------------------------------|--------------------------------|---------------------|-------------------------------|---------------------|
| | (unaudited) 2011 | (unaudited) 2010 | (unaudited) 2011 | (unaudited) 2010 |
| OPERATING REVENUES | \$ 2,700,670 | \$ 2,907,425 | \$ 8,019,264 | \$ 8,889,443 |
| Telecommunications costs | 1,494,314 | 1,624,974 | 4,500,817 | 5,114,323 |
| GROSS MARGIN | 1,206,356 | 1,282,451 | 3,518,447 | 3,775,120 |
| OPERATING EXPENSES | | | | |
| General and administration | 635,883 | 600,369 | 2,027,364 | 1,893,892 |
| Marketing and selling | 523,906 | 371,816 | 1,334,726 | 1,192,983 |
| Development and technical support | 128,084 | 213,077 | 529,662 | 642,413 |
| Amortization | 40,927 | 70,710 | 130,636 | 223,018 |
| (Gain) loss on disposal of equipment | - | - | (1,451) | 3,758 |
| Interest | 1,138 | 1,197 | 3,492 | 5,253 |
| | 1,329,938 | 1,257,169 | 4,024,429 | 3,961,317 |
| OPERATING INCOME (LOSS) | (123,582) | 25,282 | (505,982) | (186,197) |
| Other income | 1,511 | 725 | 3,225 | 1,861 |
| INCOME (LOSS) BEFORE INCOME TAXES | (122,071) | 26,007 | (502,757) | (184,336) |
| Income taxes (recovery) | (45,889) | 13,111 | (118,695) | (26,191) |
| NET INCOME (LOSS) | (76,182) | 12,896 | (384,062) | (158,145) |
| Other comprehensive income | - | - | 5,481 | - |
| COMPREHENSIVE INCOME (LOSS) | (76,182) | 12,896 | (378,581) | (158,145) |
| EARNINGS (LOSS) PER SHARE (Note 7) | \$ (0.01) | \$ 0.00 | \$ (0.03) | \$ (0.01) |

The accompanying notes are an integral part of these interim consolidated financial statements

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Changes in Equity

| (in Canadian dollars) | Share Capital | Contributed Surplus | Accumulated Comprehensive Loss | Deficit | Total |
|--|---------------|------------------------|--------------------------------------|--------------|--------------|
| Balance at Dec. 31, 2010 | \$ 1,553,456 | \$ 119,248 | \$ (5,481) | \$ (304,959) | \$ 1,362,264 |
| Net loss for the period | - | - | - | (384,062) | (384,062) |
| Other comprehensive income (loss) | - | - | 5,481 | - | 5,481 |
| Total comprehensive income (loss) for the period | - | - | 5,481 | (384,062) | (378,581) |
| Proceeds of rights issue, net of Costs \$41,431 (Note 6) | 292,344 | - | - | - | 292,344 |
| Stock-based compensation | - | 33,108 | - | - | 33,108 |
| Balance at Sept. 30, 2011 | \$ 1,845,800 | \$ 152,356 | \$ - | \$ (689,021) | \$ 1,309,135 |
| Balance at Jan. 1, 2010 | \$ 1,553,456 | \$ 85,817 | \$ - | \$ (30,892) | \$ 1,608,381 |
| Net loss for the period | - | - | - | (158,145) | (158,145) |
| Other comprehensive income (loss) | - | - | - | - | - |
| Total comprehensive income (loss) for the period | - | - | - | (158,145) | (158,145) |
| Stock-based compensation | - | 24,495 | - | - | 24,495 |
| Balance at Sept. 30, 2010 | \$ 1,553,456 | \$ 110,312 | \$ - | \$ (189,037) | \$ 1,474,731 |

The accompanying notes are an integral part of these interim consolidated financial statements

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Cash Flows

| (in Canadian dollars) | Nine months ending Sept. 30th | |
|--|-------------------------------|---------------------|
| | (unaudited) 2011 | (unaudited) 2010 |
| CASH FLOW PROVIDED BY (USED FOR) | | |
| OPERATING ACTIVITIES | | |
| Net income (loss) for the period | \$ (384,062) | \$ (158,145) |
| Adjustments for non-cash items: | | |
| Amortization expense | 130,636 | 223,018 |
| (Gain) loss on disposal of equipment | (1,451) | 3,758 |
| Fair valuation of foreign exchange hedge | 5,481 | - |
| Deferred income tax | (118,695) | (10,717) |
| Stock-based compensation | 33,108 | 24,496 |
| | (334,983) | 82,410 |
| Changes in working capital items: | | |
| Accounts receivable | (5,122) | 595,612 |
| Inventory | (4,600) | - |
| Prepaid expenses and deposits | 81,761 | (15,533) |
| Accounts payable and accrued liabilities | (43,297) | (1,005,083) |
| Income taxes recoverable/payable | - | 9,861 |
| Cash provided (used) by operating activities | (306,241) | (332,733) |
| INVESTING ACTIVITIES | | |
| Acquisitions of property and equipment (net) | (15,555) | (20,209) |
| Acquisition of intangible assets | - | - |
| Cash used by investing activities | (15,555) | (20,209) |
| FINANCING ACTIVITIES | | |
| Obligations under capital lease | (17,314) | (16,808) |
| Issuance (retirement) of common shares | 292,344 | - |
| Cash used by financing activities | 275,030 | (16,808) |
| NET DECREASE IN CASH POSITION | (46,766) | (369,750) |
| CASH POSITION, BEGINNING OF PERIOD | 473,712 | 827,412 |
| CASH POSITION, END OF PERIOD | \$ 426,946 | \$ 457,662 |
| Supplemental information: | | |
| Taxes paid | \$ - | \$ - |
| Interest received | 3,225 | 554 |

The accompanying notes are an integral part of these interim consolidated financial statements

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements

Nine months ended September 30, 2011 and 2010

(Unaudited)

1. CORPORATE INFORMATION

Telehop Communications Inc. is incorporated and domiciled in Canada. The address of our registered office is Toronto, Ontario. The consolidated financial statements of Telehop Communications Inc. for the year ended December 31, 2010, were prepared using previous Canadian Generally Accepted Accounting Principles (previous Canadian GAAP), were approved by the board of directors and authorized for issue on March 15, 2011. These interim financial statements were approved and authorized for issue on November 22, 2011.

2. BASIS OF PRESENTATION

i) These consolidated interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), under International Accounting Standard (IAS) 34 – Interim Financial Reporting. These our consolidated interim financial statements prepared under IFRS and IFRS 1 – First time Adoption of IFRS has been applied. The consolidated interim financial statements do not include all of the notes required in annual financial statements. These consolidated interim financial statements are in accordance with Generally Accepted Accounting Principles issued by the Canadian Accounting Standards Board for publicly-accountable enterprises. An explanation of how the transition to IFRS has affected our reported financial position, financial performance and cash flows is provided in Note 4, *First-time Adoption of IFRS*. The financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value as described in our accounting policies.

ii) *Functional Currency*: The consolidated financial statements are presented in Canadian dollars, the company's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

i) BASIS OF CONSOLIDATION

We consolidate the financial statements of all our subsidiaries. Subsidiaries are entities we control, where control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements

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(Unaudited)

ii) EBITDA

We define EBITDA as operating revenues less operating costs, as shown in the consolidated income statements. We use EBITDA to evaluate the performance of our businesses as it reflects their ongoing profitability.

iii) RECOGNIZING REVENUE

We measure revenues at the fair value of the arrangement consideration. We recognize revenues from the rendering of services when they are earned, specifically when all the following conditions are met:

- the significant risks and rewards of ownership are transferred to customers and we retain neither continuing managerial involvement nor effective control
- there is clear evidence that an arrangement exists
- the amount of revenue and related costs can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the company.

In particular, we recognize:

- fees for long distance and calling card services when we provide the services
- other fees, such as network access fees, licence fees, hosting fees, maintenance fees and standby fees, over the term of the contract
- subscriber revenues when customers receives the service

We record payments we receive in advance, including upfront non-refundable payments, as unearned revenues until we provide the service to customers. Unearned revenues are presented in *Accounts payable and accrued liabilities* on the statement of financial position. Revenues exclude taxes which we collect from our customers. We expense subscriber acquisition costs as incurred.

iv) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of cash or highly liquid investments with original maturities of three months or less from the date of purchase.

v) CAPITAL ASSETS

Property and equipment are recorded at cost and are amortized based on the estimated useful lives of the assets using the straight-line method over the following periods:

| | |
|--------------------------|------------|
| Telecom equipment | - 5 years |
| Furniture and equipment | - 5 years |
| Computer equipment | - 3 years |
| Customer equipment | - 10 years |
| Leasehold improvements | - 5 years |
| Telecom switch equipment | - 7 years |
| Computer software | - 5 years |

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Assets under leases are amortized on a straight-line basis over the period of expected use for the class of asset leased.

vi) FINANCIAL INSTRUMENTS

Held for Trading

Financial assets and liabilities classified as held for trading are measured at fair value, with changes in fair value recognized in *Other (expense) income* in the income statement. *Cash* and *Cash equivalents* are classified as held for trading.

Trade and Other Receivables

Trade and other receivables, which include accounts receivable and other short-term receivables, are measured at amortized cost using the effective interest method, net of any allowance for doubtful accounts.

Other Financial Liabilities

Other financial liabilities are recorded at amortized cost using the effective interest method and include trade and other payables, interest payable and debt.

vii) DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative financial instruments to manage interest rate risk and foreign currency risk. We do not use derivative financial instruments for speculative or trading purposes.

Hedge Accounting

To qualify for hedge accounting, we document all relationships between each derivative and the item it hedges and our risk management objective and strategy. This includes associating each derivative to a specific asset or liability, a specific firm commitment, or a specific anticipated transaction. We assess the effectiveness of a derivative in managing an identified risk when hedge accounting is initially applied, and on an ongoing basis thereafter. If a hedge becomes ineffective, we stop using hedge accounting.

Cash Flow Hedges

Our cash flow hedges are used to mitigate foreign currency risk on certain purchase commitments. We use forward foreign exchange contracts to manage the exposure to anticipated transactions denominated in foreign currencies. We use cross-currency swaps to hedge firm commitments to pay interest and/or principal amounts in the foreign currency. Changes in the fair value of these derivatives are recognized in our statement of comprehensive income, except for any ineffective portion, which is recognized immediately in earnings. Realized gains and losses in accumulated other comprehensive income are reclassified to General and Administrative expenses in the income statement in the same periods as the corresponding hedged items are

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recognized in earnings. Cash flow hedges that mature within one year are included in *other current assets or Accounts payable and accrued liabilities*.

viii) INCOME TAXES

Income tax expense comprises current and deferred taxes. Tax expense is recognized in the income statement. A deferred tax asset or liability is tax recoverable or payable in future periods as a result of past transactions or events. We use the liability method to account for deferred tax assets and liabilities, which arise from temporary differences between the carrying amount of assets and liabilities recognized in the statement of financial position. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply when the asset or liability is recovered or settled.

ix) STOCK OPTIONS

We use a fair value-based method to measure the cost of our employee stock options, based on the number of stock options that are expected to vest. Compensation expense is adjusted for subsequent changes in management's estimate of the number of stock options that are expected to vest. We credit contributed surplus for stock option expense recognized over the vesting period. When stock options are exercised, we credit share capital for the amount paid and the amounts previously credited to contributed surplus.

x) USING ESTIMATES AND KEY JUDGEMENTS

When preparing financial statements according to IFRS, management makes estimates and assumptions relating to:

- reported amounts of revenues and expenses
- reported amounts of assets and liabilities
- disclosure of contingent assets and liabilities.

We base our estimates on a number of factors, including historical experience, current events and actions that the company may undertake in the future, and other assumptions that we believe are reasonable under the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results could differ. In particular, we use estimates when accounting for certain items such as revenues, allowance for doubtful accounts, useful lives of capital assets, asset impairments, legal and tax contingencies, share-based compensation plans, and deferred income taxes.

Capital Asset Impairment

We make a number of estimates when calculating fair value using discounted future cash flows or other valuation methods. These estimates include the assumed growth rates for future cash flows, the number of years used in the cash flow model, and the discount rate.

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(Unaudited)

Contingencies

We become involved in various litigation and regulatory matters as a part of our business that could affect our operations. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss to our business. We accrue a potential loss if we believe the loss is probable and can be reasonably estimated, based on information that is available at the time. Any accrual would be charged to earnings and included in Accounts Payable and accrued liabilities. Analyzing potential outcomes and assuming various litigation and settlement strategies.

Income Taxes

The calculation of income taxes requires judgement in interpreting tax rules and regulations. There are transactions and calculations for which the ultimate tax determination is uncertain. Our tax filings are also subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities. Management believes that it has sufficient amounts accrued for outstanding tax matters based on the information that currently is available. Deferred tax assets require management judgement in determining the amounts to be recognized. In particular, judgement is required when assessing the timing of reversal of temporary differences to which future income tax rates are applied. Further, the amount of deferred tax assets, which is limited to the amount that is more likely than not to be realized, is estimated with consideration given to the timing, sources and amounts of future taxable profit.

4. FIRST TIME ADOPTION OF IFRS

Our accounting policies presented in Note 3, *Significant Accounting Policies*, have been applied in preparing the financial statements for the three months ended March 31, 2011, the comparative information for the period ended March 31, 2010, the year ended December 31, 2010 and the opening statement of financial position at January 1, 2010, our date of transition to IFRS. We have applied IFRS 1 – First-time Adoption of IFRS in preparing the consolidated statement of financial position as at January 1, 2010. The effects of the transition to IFRS on equity and total comprehensive income are presented in this note. Prior to January 1, 2010, our consolidated financial statements were prepared in accordance with previous Canadian GAAP.

FIRST-TIME ADOPTION ELECTIONS

IFRS 1, First-time adoption of international financial reporting standards sets forth guidance for the initial adoption of IFRS. We are required to establish our IFRS accounting policies in accordance with standards in effect on our first annual reporting date, December 31, 2011. We are required to apply these policies retrospectively to determine the IFRS opening balance sheet at our date of transition, January 1, 2010. In addition, IFRS 1 provides both mandatory and optional exemptions to this general rule. We have chosen to apply certain exemptions to reduce

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the complexity involved in converting to IFRS, as the cost of not applying the exemptions would far outweigh the benefit to the users of our financial statements.

The significant exemptions that we have applied upon adoption are summarized below:

a) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, Business combinations, retrospectively to business combinations that occurred before the date of transition to IFRS. Applying IFRS 3 retrospectively would require a significant amount of analysis and work to restate business combination transactions that have occurred since our inception. We will elect to apply IFRS 3 to business combinations that occur on or after January 1, 2010.

b) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. Our IFRS estimates as of March 31, 2011, are consistent with our Canadian GAAP estimates for the same date.

c) Expected areas of significance

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement, and disclosure. While adoption of IFRS will not change our actual cash flows, it will result in changes to our reported financial position and results of operations. Set out below are the significant accounting differences that will impact our consolidated financial statements. The manner of presentation of certain items under IFRS has not been affected for clarity of this reconciliation only.

The following unaudited reconciliations present the identified differences between Canadian GAAP and IFRS for our consolidated opening balance sheet at January 1, 2010, and our consolidated statement of earnings for the year ended December 31, 2010. The reconciliations and comments are intended to highlight the most significant areas and should not be regarded as complete or final:

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RECONCILIATION OF PREVIOUS CANADIAN GAAP TO IFRS

| Consolidated Statement of Financial Position (unaudited) | December 31, 2009 Cdn. GAAP | Notes | Transition to IFRS | January 1, 2010 IFRS | December 31, 2010 IFRS |
|--|--------------------------------|-------|--------------------|-------------------------|---------------------------|
| ASSETS | | | | | |
| CURRENT | | | | | |
| Cash and cash equivalents | \$ 827,412 | | - | \$ 827,412 | \$ 473,712 |
| Accounts receivable | 2,424,306 | A | \$ 309,381 | 2,733,687 | 2,369,973 |
| Provision for doubtful accounts | - | A | (309,381) | (309,381) | (307,878) |
| Income taxes recoverable | 150,682 | | - | 150,682 | - |
| Future income taxes | 200,205 | B | (200,205) | - | - |
| Prepaid expenses and deposits | 107,137 | | - | 107,137 | 149,807 |
| | 3,709,742 | | (200,205) | 3,509,537 | 2,685,614 |
| DEFERRED INCOME TAXES | - | B | 200,205 | 200,205 | 214,293 |
| PROPERTY AND EQUIPMENT | 476,974 | C, D | 35,053 | 512,027 | 308,339 |
| INTANGIBLE ASSETS | 118,746 | | - | 118,746 | 72,347 |
| | \$ 4,305,462 | | \$ 35,053 | \$ 4,340,515 | \$ 3,280,593 |

| Consolidated Statement of Financial Position (cont'd) (unaudited) | December 31, 2009 Cdn. GAAP | Notes | Transition to IFRS | January 1, 2010 IFRS | December 31, 2010 IFRS |
|---|--------------------------------|-------|--------------------|-------------------------|---------------------------|
| LIABILITIES | | | | | |
| CURRENT | | | | | |
| Accounts Payable and accrued liabilities | \$ 2,657,444 | A | \$ (98,509) | \$ 2,558,935 | \$ 1,737,377 |
| Provisions | - | A | 98,509 | 98,509 | 138,145 |
| Obligations under capital lease | 16,526 | C | 5,925 | 22,451 | 19,938 |
| | 2,673,970 | | 5,925 | 2,679,875 | 1,895,460 |
| DEFERRED INCOME TAXES | 10,717 | B | - | 10,717 | - |
| OBLIGATIONS UNDER CAPITAL LEASE | 12,395 | C | 29,127 | 41,522 | 22,869 |
| | 2,697,082 | | 35,053 | 2,732,135 | 1,918,329 |
| SHAREHOLDERS' EQUITY | | | | | |
| SHARE CAPITAL | 1,553,456 | | - | 1,553,456 | 1,553,456 |
| CONTRIBUTED SURPLUS | 85,816 | | - | 85,816 | 119,248 |
| ACCUMULATED COMPREHENSIVE INCOME (LOSS) | - | | - | - | (5,481) |
| RETAINED EARNINGS (DEFICIT) | (30,892) | | - | (30,892) | (304,959) |
| | 1,608,380 | | - | 1,608,380 | 1,362,264 |
| | \$ 4,305,462 | | \$ 35,053 | \$ 4,340,515 | \$ 3,280,593 |

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Notes to Interim Consolidated Financial Statements

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(Unaudited)

| Consolidated Income Statement (unaudited) | December 31, 2010 | | | December 31, 2010 |
|--|-------------------|-------|----------------------|-------------------|
| | Canadian GAAP | Notes | Effect of transition | IFRS |
| OPERATING REVENUES | \$ 11,758,098 | | \$ - | \$ 11,758,098 |
| Telecommunications costs | 6,679,660 | | - | 6,679,660 |
| GROSS MARGIN | 5,078,438 | | - | 5,078,438 |
| OPERATING EXPENSES | | | | |
| General and administration | 2,513,026 | C | (7,628) | 2,505,398 |
| Marketing and selling | 1,627,657 | | - | 1,627,657 |
| Development and technical support | 848,506 | | - | 848,506 |
| Amortization | 259,213 | C, D | 8,609 | 267,822 |
| Interest | 6,204 | C | 1,703 | 7,907 |
| | 5,254,606 | | 2,684 | 5,257,290 |
| OPERATING INCOME (LOSS) | (176,168) | | (2,684) | (178,852) |
| Other income | 3,517 | | - | 3,517 |
| INCOME (LOSS) BEFORE INCOME TAXES | (172,651) | | (2,684) | (175,335) |
| Income taxes (recovery) | 98,742 | | - | 98,742 |
| NET INCOME (LOSS) | (271,393) | | (2,684) | (274,077) |
| Other comprehensive income (loss) | (5,481) | | - | (5,481) |
| Comprehensive income (loss) | \$ (276,874) | | \$ (2,684) | \$ (279,558) |

The effect of transition to IFRS is explained below:

(A) Provisions

Under Canadian GAAP, accounts payable, accrued liabilities and provisions are combined on the balance sheet as a single line item. This is also true on the receivables side. Under IFRS provisions are required to be disclosed separately.

(B) Future income tax asset/liability

Under Canadian GAAP, future income tax assets and liabilities are classified as current or non-current as appropriate. Under IFRS, all future income tax assets and liabilities are classified as non-current.

(C) Leases

Under Canadian GAAP, certain rules allow leases of equipment to be classed as operating and expensed without recognizing the asset or obligation. Under IFRS, all leases are considered capital in nature. Assets under capital leases are amortized on a straight-line basis over the period of expected use for the class of asset leased. Obligations are recorded under the lease and reduced by lease payments net of imputed interest.

(D) Plant and equipment

Under Canadian GAAP, assets not in service do not get amortized until they are put into service. Under IFRS, assets are amortized from the point at which they become "available for use".

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Reconciliation of Total Comprehensive Income (Loss) three months ended September 30, 2010:

| Consolidated Income Statement (unaudited) | September 30, 2010 Canadian GAAP | Notes | Effect of transition | September 30, 2010 IFRS |
|--|-------------------------------------|-------|----------------------|----------------------------|
| OPERATING REVENUES | \$ 2,907,425 | | \$ - | \$ 2,907,425 |
| Telecommunications costs | 1,624,974 | | - | 1,624,974 |
| GROSS MARGIN | 1,282,451 | | - | 1,282,451 |
| OPERATING EXPENSES | | | | |
| General and administration | 602,276 | C | (1,907) | 600,369 |
| Marketing and selling | 371,816 | | - | 371,816 |
| Development and technical support | 213,077 | | - | 213,077 |
| Amortization | 68,557 | C, D | 2,153 | 70,710 |
| Interest | 770 | C | 427 | 1,197 |
| | 1,256,496 | | 673 | 1,257,169 |
| OPERATING INCOME (LOSS) | 25,955 | | (673) | 25,282 |
| Other income | 725 | | - | 725 |
| INCOME (LOSS) BEFORE INCOME TAXES | 26,680 | | (673) | 26,007 |
| Income taxes (recovery) | 13,111 | | - | 13,111 |
| NET INCOME (LOSS) | 13,569 | | (673) | 12,896 |
| Other comprehensive income (loss) | - | | - | - |
| Comprehensive income (loss) | \$ 13,569 | | \$ (673) | \$ 12,896 |

Reconciliation of Total Comprehensive Income (Loss) nine months September 30, 2010:

| Consolidated Income Statement (unaudited) | September 30, 2010 Canadian GAAP | Notes | Effect of transition | September 30, 2010 IFRS |
|--|-------------------------------------|-------|----------------------|----------------------------|
| OPERATING REVENUES | \$ 8,889,443 | | \$ - | \$ 8,889,443 |
| Telecommunications costs | 5,114,323 | | - | 5,114,323 |
| GROSS MARGIN | 3,775,120 | | - | 3,775,120 |
| OPERATING EXPENSES | | | | |
| General and administration | 1,899,613 | C | (5,721) | 1,893,892 |
| Marketing and selling | 1,192,983 | | - | 1,192,983 |
| Development and technical support | 642,413 | | - | 642,413 |
| Amortization | 216,561 | C, D | 6,457 | 223,018 |
| (Gain) loss on sale of equipment | 3,758 | | - | 3,758 |
| Interest | 3,976 | C | 1,277 | 5,253 |
| | 3,959,304 | | 2,013 | 3,961,317 |
| OPERATING INCOME (LOSS) | (184,184) | | (2,013) | (186,197) |
| Other income | 1,861 | | - | 1,861 |
| INCOME (LOSS) BEFORE INCOME TAXES | (182,323) | | (2,013) | (184,336) |
| Income taxes (recovery) | (26,191) | | - | (26,191) |
| NET INCOME (LOSS) | (156,132) | | (2,013) | (158,145) |
| Other comprehensive income (loss) | - | | - | - |
| Comprehensive income (loss) | \$ (156,132) | | \$ (2,013) | \$ (158,145) |

TELEHOP COMMUNICATIONS INC.

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(Unaudited)

Reconciliation of Equity as at September 30:

| (unaudited) | Notes | Sept. 30, 2011 | January 1, 2011 | December 31, 2010 | Sept. 30, 2010 |
|--|-------|-------------------|--------------------|----------------------|-------------------|
| Shareholders equity under previous GAAP | | \$ 1,313,832 | \$ 1,362,264 | \$ 1,364,938 | \$ 1,476,744 |
| IFRS conversion | | (2,684) | (2,684) | - | |
| Adjustments to shareholders equity to conform with IFRS: | | | | | |
| Obligations under lease | C | (564) | - | (752) | (564) |
| Property and equipment | D | (1,449) | - | (1,922) | (1,449) |
| Shareholders equity under IFRS | | \$ 1,309,135 | \$ 1,359,580 | \$ 1,362,264 | \$ 1,474,731 |

5. CAPITAL MANAGEMENT

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, so that it can provide above-average returns for its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity, which consists of issued capital, contributed surplus, accumulated other comprehensive income (loss) and retained earnings.

The Company manages its capital structure and makes adjustments to it in light of general economic conditions and the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust the capital structure, the Company, upon approval from its Board of Directors, may issue long-term debt, issue shares, repurchase shares through a normal course issuer bid and pay dividends. The Board of Directors reviews and approves any material transactions not in the ordinary course of business which may include various acquisition proposals, as well as capital and operating budgets. The Company *is not subject to any externally imposed capital requirements*.

6. SHAREHOLDERS' EQUITY

Authorized:

An unlimited number of common shares:

The changes in common shares for 2011 and 2010 are as follows:

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(Unaudited)

| Issued | September 30, 2011 | | December 31, 2010 | |
|----------------------------|--------------------|--------------|-------------------|--------------|
| | No. of Shares | Amount | No. of Shares | Amount |
| Balance, beginning of year | 13,391,000 | \$ 4,553,456 | 13,391,000 | \$ 4,553,456 |
| Rights issuance | 3,447,750 | 292,344 | - | - |
| Balance, end of the period | 16,838,750 | 4,845,800 | 13,391,000 | \$ 4,553,456 |

During the third quarter a 25% rights offering was made to the shareholders of record in order to raise capital for operations and possible accusations the offering was fully subscribed prior to the period end. The offering cost the Company \$41,431 and netted a capital influx of \$292,344.

7. STOCK OPTIONS

At the annual general meeting of shareholders held on May 25, 2011 new plan was approved by the shareholders. The new plan is of a revolving nature allowing up to 10% of the outstanding shares to be issued as options with a strike price no less than market. This new plan requires annual ratification by the shareholders at each Annual meeting. The options vest over a period of time (usually 3 years) and are only allowed to be issued to Directors, Officers and Employees under the guidance and direction of the Board. At present, the company can have an available outstanding 1,673,875 the details of which follow:

| | September 30, 2011 | | December 31, 2010 | |
|--|--------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted Average Exercise Price | Number of options | Weighted Average Exercise Price |
| Options outstanding, beginning of year | 725,000 | \$ 0.197 | 300,000 | \$ 0.215 |
| Options granted | 425,000 | \$ 0.124 | 525,000 | \$ 0.190 |
| Options exercised | - | \$ - | - | \$ - |
| Options cancelled | (300,000) | \$ 0.215 | (100,000) | \$ 0.215 |
| Options outstanding, at end of period | 850,000 | \$ 0.154 | 725,000 | \$ 0.197 |
| Options exercisable, at end of period | 274,999 | \$ 0.157 | 133,333 | \$ 0.215 |

The options existing on prior to the new plan being ratified, rolled over into the new plan with existing vesting, the only difference being the termination clause is increased from 30

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days under the 2005 plan to 90 days effective May 25, 2011. The following table summarizes existing stock options outstanding at September 30, 2011:

| Options outstanding | | |
|--|-----------------------|-----------------------|
| Weighted average Exercise price | Number outstanding | Number exercisable |
| \$ 0.220 | 25,000 | 8,333 |
| \$ 0.215 | 100,000 | 66,667 |
| \$ 0.200 | 100,000 | - |
| \$ 0.170 | 300,000 | 99,999 |
| \$ 0.100 | 325,000 | 100,000 |
| <u>\$ 0.181</u> | <u>850,000</u> | <u>274,999</u> |

Options granted vest over a period not exceeding three years. All stock options granted have an exercise price equal to the fair market value at the grant date.

The Company has evaluated the fair value of all options granted during the past three years using the Black-Scholes option pricing model with the noted assumptions:

| | September 30, 2011 Weighted Average | December 31, 2010 Weighted Average |
|---|--|---------------------------------------|
| Estimated fair value at the date of grant for options granted in the period | \$ 0.108 | \$ 0.190 |
| Assumptions utilized: | | |
| Risk-free interest rate | 2.50% | 2.50% |
| Expected volatility | 144.22% | 144.60% |
| Expected life of the options (years) | 5.00 | 5.00 |
| Expected dividend yield | 0.00% | 0.00% |

8. EARNINGS PER SHARE

The Company uses the treasury stock method of calculating the dilutive effect of options on earnings per share. The following table sets forth the computation of basic and diluted earnings per share:

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(Unaudited)

| | Sept. 30, 2011 | Sept. 30, 2010 |
|---|-------------------|-------------------|
| Net Income (loss) | \$ (384,062) | \$ (158,145) |
| Weighted average shares for earnings per share | 13,440,051 | 13,391,000 |
| Effect of dilutive securities – Employee stock options | 100,000 | - |
| Adjusted weighted average share and assumed conversions for diluted earnings per share | <u>13,540,051</u> | <u>13,391,000</u> |
| Earnings (loss) per share | \$ (0.029) | \$ (0.012) |
| Diluted Earnings (loss) per share | \$ (0.028) | \$ (0.012) |

9. PROPERTY AND EQUIPMENT

| | <u>September 30, 2011</u> | | | <u>December 31, 2010</u> | | |
|--|---------------------------|-----------------------------|-------------------|--------------------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Telecom equipment | \$ 902,599 | \$ 839,586 | \$ 63,013 | \$ 895,947 | \$ 805,531 | \$ 90,416 |
| Telecom equipment under capital lease | 66,105 | 66,105 | - | 66,105 | 53,710 | 12,395 |
| Computer software | 240,143 | 231,119 | 9,024 | 240,143 | 223,036 | 17,107 |
| Computer Equipment | 113,242 | 103,741 | 9,501 | 113,242 | 90,778 | 22,464 |
| Customer equipment | 126,501 | 23,930 | 102,571 | 117,807 | 15,810 | 101,997 |
| Leasehold improvements | 80,381 | 72,187 | 8,194 | 80,381 | 63,638 | 16,743 |
| Furniture and equipment | 67,527 | 53,148 | 14,379 | 65,856 | 47,026 | 18,830 |
| Furniture and equipment under capital lease | 35,053 | 11,935 | 23,118 | 35,053 | 6,666 | 28,387 |
| | <u>\$ 1,631,551</u> | <u>\$ 1,401,751</u> | <u>\$ 229,800</u> | <u>\$ 1,614,534</u> | <u>\$ 1,306,195</u> | <u>\$ 308,339</u> |

Amortization expense for the nine month period ended September 30, 2011 was \$97,363 (2010: \$188,754).

TELEHOP COMMUNICATIONS INC.

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Nine months ended September 30, 2011 and 2010

(Unaudited)

10. INTANGIBLE ASSETS

| | September 30, 2011 | | | December 31, 2010 | | |
|--|--------------------|--------------------------|----------------|-------------------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Software licences and reporting system | \$ 311,836 | \$ 274,580 | \$ 37,256 | \$ 311,836 | \$ 239,489 | \$ 72,347 |
| | \$ 311,836 | \$ 274,580 | \$ 37,256 | \$ 311,836 | \$ 239,489 | \$ 72,347 |

Amortization expense for the period ended September 30, 2011 was \$33,274 (2010: \$34,263).

11. FINANCIAL INSTRUMENTS

(a) Risks – Overview

The Company's financial instruments and the nature of risks which they may be subject to are summarized as follows:

| Financial instrument | Risks | | |
|---------------------------------|--------|-----------|--------------------------|
| | Credit | Liquidity | Market risks Currency |
| Measured at cost | | | |
| Cash and cash equivalent | x | | x |
| Accounts receivable | x | | x |
| Accounts payable | | x | |
| Obligations under capital lease | | x | |

(b) Credit Risk

The following table summarizes the Company's exposure to credit risk.

| | September 30, 2011 | December 31, 2010 |
|---------------------------------|--------------------|-------------------|
| Cash and cash equivalents | \$ 426,946 | \$ 827,412 |
| Accounts receivable | 2,423,794 | 2,369,973 |
| Allowance for doubtful accounts | (356,577) | (307,878) |
| Total | \$ 2,494,163 | \$ 2,889,507 |

Cash and cash equivalents: Credit risk associated with cash and cash equivalents, which are held in short-term deposits, are minimized significantly by ensuring that these financial instruments

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are placed with major financial institutions with investment grade ratings and the avoidance of asset-backed commercial papers.

Accounts receivable: Credit risk associated with accounts receivable is minimized by the Company's large customer base and its geographic dispersion across Canada. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis.

The following table presents an analysis of the age of accounts receivable not allowed for as at the dates of the Consolidated Statement of Financial Position.

| | September 30, 2011 | December 31, 2010 |
|---|-----------------------|----------------------|
| Customer accounts receivable net of allowance for doubtful accounts | | |
| Current | \$ 1,943,650 | \$ 1,947,052 |
| 30-60 days past billing date | 36,683 | 32,328 |
| 60-90 days past billing date | 51,806 | 51,313 |
| Greater than 90 days past billing date | 35,078 | 31,402 |
| Total | \$ 2,067,217 | \$ 2,062,095 |

The Company must make significant estimates pertaining to allowance for doubtful accounts. Historical information, current economic conditions, and exceptional circumstances are all considered when determining the provision for allowance for doubtful accounts. The following table presents a summary of the activity related to the Company's allowance for doubtful accounts:

| | September 30, 2011 | December 31, 2010 |
|---|-----------------------|----------------------|
| Balance, beginning of the period | \$ 307,878 | \$ 309,381 |
| Additions to allowance for doubtful accounts | 191,172 | 202,199 |
| Reductions to allowance for doubtful accounts | (142,473) | (203,702) |
| Balance, end of the period | \$ 356,577 | \$ 307,878 |

(c) Liquidity Risk

The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and working capital changes. The Company does not currently believe it will encounter difficulty in meeting its obligations associated with financial liabilities. The Company's undiscounted financial liability shows the remaining contractual obligations to maturity are as follows:

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(Unaudited)

| Capital lease | September 30, 2011 |
|-----------------|-----------------------|
| Balance of 2011 | \$ 4,544 |
| 2012 | 7,628 |
| 2013 | 7,628 |
| 2014 | 7,628 |
| 2015 | 1,907 |
| Total | \$ 29,335 |

(d) Market and Currency Risk

The Company's functional currency is the Canadian dollar, but it regularly transacts in U.S. dollars for a portion of its business activities. The assets, liabilities, revenues and expenses denominated in U.S. dollars will be affected by changes in the exchange rate fluctuations in the market between the Canadian and U.S. dollar.

From time to time the Company makes use of foreign currency forward contracts and options contracts to fix the exchange rates on the U.S. dollar to mitigate its foreign exchange exposure on expenses. As at September 30, 2011 the Company did possess foreign currency forward contracts. The contract entered into fixes the exchange rate at which the company will acquire U.S. dollars and it is less than its forecasted requirements and it must be fulfilled by November 15, 2011. The contract was subsequently fulfilled in October with a recognized gain in the month.

We document all relationships between derivatives and the items they hedge and our risk management objective and strategy for using hedges. This process includes linking every derivative to:

- A specific asset or liability, or
- A specific firm commitment, or
- An anticipated transaction.

We assess the effectiveness of a derivative in managing an identified risk when hedge accounting is initially applied, and on an ongoing basis thereafter. If a hedge becomes ineffective, we stop using hedge accounting. Any premiums paid for derivatives used in hedging relationships are deferred and expensed to operations over the life of the contract. Any forward premiums or discounts on forward foreign exchange contracts that are used to hedge debt denominated in foreign currencies are amortized to expense as utilized.

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Our cash flow hedges are used to mitigate the foreign currency risk on certain debt instruments and purchase commitments. We use foreign exchange forward contracts to manage the exposure to anticipated transactions denominated in foreign currencies. Changes in the fair value of these derivatives are recognized in our statement of comprehensive loss, except for any ineffective portion, which is recognized immediately in income. Realized gains and losses in accumulated other comprehensive loss are reclassified to the statement of operations in the same periods as the corresponding hedged items are recognized in income. Cash flow hedges that mature within one year are included in Prepaid and other expenses or Accounts payable and accrued liabilities.

iv) Fair value of financial instruments

Under IFRS 7 financial instruments disclosures, requires an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value and establishes a hierarchy under which these assets and liabilities must be grouped based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect the Company's assumptions. The two types of inputs create the following fair value hierarchy:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3: unobservable input for the asset or liability in which little or no market data exists, therefore require the entity to develop it's own assumptions.

Cash and cash equivalents have been classified as level 1, all other financial instruments have been classified as level 2.

12. LEASE OBLIGATIONS

| | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| Total minimum lease payments | \$29,335 | \$ 47,000 |
| Less: amount representing imputed interest | 3,842 | 4,193 |
| Present value of the obligations under capital lease | 25,493 | 42,807 |
| Current portion – due within one year | 7,400 | 19,938 |
| Long term obligation under capital lease | \$ 18,093 | \$ 22,869 |

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13. LITIGATION SETTLED

In the third quarter, the Company reached a settlement agreement with a vendor of marketing services. The original said claim of approximately \$230,000 was disclosed during the 2007 fiscal year. The full settlement is recorded in the third quarter accounts under General and Administrative Expenses.

14. SUBSEQUENT EVENT

The Company entered into three significant contracts in early October 2011 in order to facilitate development of new products and services:

- *Purchase of switch*

A purchase agreement with a major Telecommunications company to replace its existing and aging switch technology amounting to approximately \$450,000. The new switch will provide “carrier-grade” technology to enhance the quality of the Company's existing services. In addition, it will allow the Company to expand its product offerings to reach new market segments.

- *Co-location agreement and new lease*

A three-year leasing agreement with a major Telecommunications company to house the new switch and enhance its existing network infrastructure.

In order to ensure minimum impact to customer experience, it is necessary that the Company runs a duplicate network nationwide during implementation of the new switch. This will result in additional fourth quarter expenses amounting to approximately \$90,000. The completion date for the new switch project is expected to be in the first quarter of 2012.

15. CONTINGENT LIABILITY

From time to time the Company has been, and expects to continue to be, subject to legal proceedings and claims in the ordinary course of our business. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. The Company is not aware of any legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on the Company's financial condition or results of operation.

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16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from statements previously presented to conform to the current presentation.